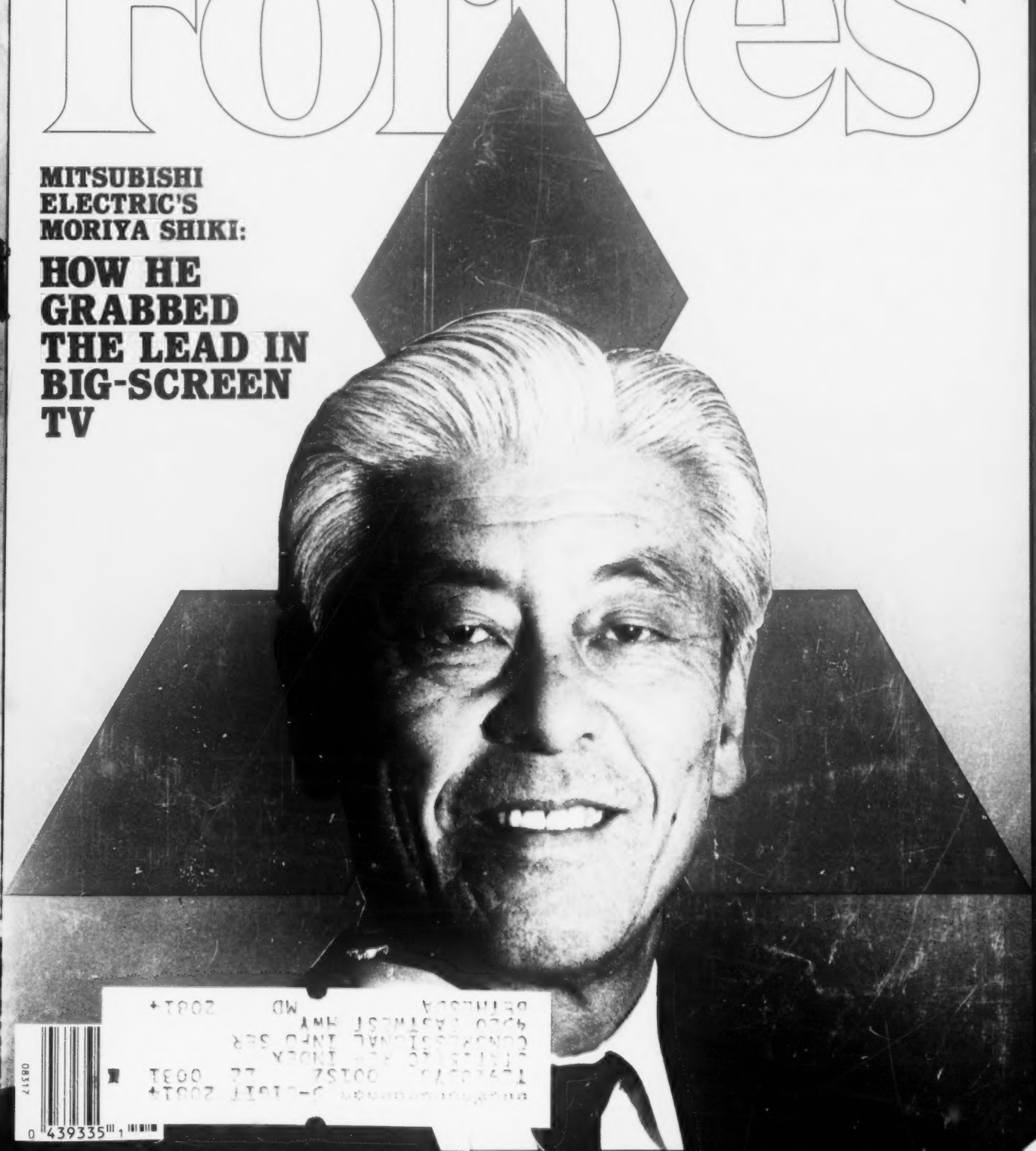
DANGER SIGNALS IN SURGING MUTUAL FUND SALES

PERFORMANCE RATINGS ON 640 FUNDS

Forbes

MITSUBISHI ELECTRIC'S MORIYA SHIKI:

HOW HE GRABBED THE LEAD IN BIG-SCREEN TV



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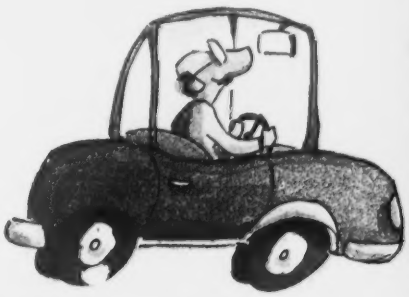

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seasoned film executives either have jumped ship or were fired by Qintex. The company's current chief, Jeffrey C. Barbakow, is a former investment banker from Merrill Lynch.

Like his controlling shareholder Kerkorian, Barbakow puts on a brave face. Insists he: "There is no need to borrow in calendar 1990. From our cash on hand, our continuing cash flow and the transactions we are working on, we have more than sufficient cash to completely finance our 1990 slate."

At the end of the company's fiscal quarter ended Nov. 30, MGM/UA had $127 million in the bank, with the expectation of $31 million more from the sale of a Beverly Hills office building later this month. But at a not outlandish $20 million a movie, production costs could rapidly deplete the funds. Also, at year's end the company's revenue-producing pay TV deal with Home Box Office expired, meaning MGM/UA will have to negotiate a new arrangement at a time when the pay television business has cooled.

MGM/UA Chief Financial Officer Thomas P. Carson agrees that the company has exhausted its $50 million pool of production funds raised by two limited partnerships. But, he notes, a third partnership will soon begin seeking investors, and MGM/UA is seeking foreign money. Lots of luck, Tom.

Most of MGM/UA's more valuable properties have already been pledged or sold as sources of ready cash. The company has no more real estate and has sold the use of its name in the Florida theme park business to Disney. In long-term licensing deals, MGM/UA has mortgaged its film library (consisting largely of the United Artists titles acquired by Kerkorian in 1981). Complains one former MGM/UA banker: "There are so many screwy side deals where they've sold their future, it's hard to know how much they've got and how much they really generate in income."

Kerkorian himself could always write the studio a blank, or at least very large, check. His net worth, FORBES estimates, exceeds $1.3 billion. But subsidies are unlikely: He pumped in $180 million last year and has just embarked on a plan to build a 5,000-room Las Vegas resort and theme park for MGM Grand Inc., his airline and hotel company. This could cost $1 billion before it's finished.

So what's behind all the brave talk from Kerkorian and his aides? Most probably it's an attempt to hold things together until another buyer can be found. The most likely buyer? Ted Turner's Turner Broadcasting System, backed by Time Warner Inc., which owns 18% of Turner. Both Turner and Time Warner's Steve Ross can see unexploited value in the 950-title United Artists film library, which includes the *Rocky* pictures (numbers I through IV), plus the Pink Panther series and 16 James Bond films, including *Goldfinger* and *A View to a Kill*. Time Warner already has the foreign home video rights until the end of 1991 but wants to extend the deal. For his part, Turner needs programming for his newest cable channel, TNT. And though Kerkorian sold most of the MGM library to Turner in 1986, there are still a few promising titles left there to peddle, including *A Fish Called Wanda*, *Moonstruck* and *Willow*.

Price? Probably south of $20 a share, in Turner stock, and perhaps some Time Warner paper. Old Leo, much abused and maltreated over the years, is no corpse yet, but he's pretty mangy nonetheless. ■

"I can't do business at 11 cents above cost!" moans a video store owner as prices of hit movie tapes come tumbling down.

Can video stores survive?

By Peter Newcomb

HAS THE VIDEO rental outlet, a relative infant of a business, already passed its prime? Could be. Mass merchants like Wal-Mart and K mart have begun ordering huge quantities of tapes, stacking them next to snowblowers and girdles, and selling them below $20 a tape, often as loss-leaders. Fumes Lou Berg, president of the Video Software Dealers Association and a video store owner: "It seems when something's hot, like *E.T.* or *Batman*, you could go to an Exxon car wash and find the tape below cost. You could buy the product

Photos by DiMucci-Ferris

Liked the movie, loved the tape

Below, a ranking of the ten bestselling videocassettes. All but *Wizard of Oz* were priced for the mass market.

Rank	Title	Units sold (mil)	Estimated studio revenue ($mil)
1	**Batman *(Warner)***	13.0	$195
2	**E.T. The Extra-Terrestrial *(MCA)***	12.5	187
3	**Bambi *(Disney)***	10.5	168
4	**Who Framed Roger Rabbit *(Disney)***	8.5	119
5	**Cinderella *(Disney)***	7.5	124
6	**Land Before Time *(MCA)***	4.0	60
7	**Wizard of Oz *(MGM/UA)***	3.6	51
8	**Top Gun *(Paramount)***	3.5	56
9	**Lady and the Tramp *(Disney)***	3.2	58
10	**Crocodile Dundee *(Paramount)***	2.5	38

Source: Video Marketing Newsletter, *Hollywood, Calif.*

from another mass merchant for less money than you could from your distributor."

Tough, but nobody promised these video merchants an exclusive franchise on what happens to be the hottest item in the entertainment business today. Why should they be surprised that the mass merchants would move in on them once the business reached a critical mass? Confirming the fears of the video store owners were the 1989 Christmas videocassette releases of Disney's *Who Framed Roger Rabbit* and *Bambi*, and Warner Bros.' *Batman*.

The films were all released by the studios at prices that allowed mass merchants such as K mart and department stores such as Sears, as well as thousands of grocery stores and gasoline stations, to retail them at around $17; at normal video store markups, the tapes would go for $20 or so. All three became instant bestsellers, grossing among them $500 million *(see table, p. 39)*.

Another shoe dropped when the video rental stores heard that the third *Indiana Jones* sequel, *Lethal Weapon II*, and *Honey, I Shrunk the Kids*—all box-office hits and would-be rental champs—will be available at similar prices.

"We eventually sold *Batman* for 11 cents above cost," complains Berg. "I can't do business at 11 cents above cost!"

It used to be that the studios released all tapes at $89.95 list, or about $65 wholesale. Few consumers would pay nearly $90 to see a movie, so the chief customers were video rental stores that would then rent the tapes out for $2 or $3 a night. A hot tape could easily recoup its cost within a couple of months.

But in the last year or so, it has dawned on the studios that they can sell 2 million or more copies of a hit cassette rather than the more usual several hundred thousand if the retail price is right, around $20. In video trade jargon, marketing tapes directly to consumers is called the sell-through market, and its growth in recent years has been staggering.

Why will people buy a tape for $20 that they will probably view once or twice when they could rent it for $2 a shot? Good question, but the answer is: Americans are collectors. After all, they pay $20 for hard-cover books they will read only once—if that.

Hollywood has long since found out that videotapes are more than a mere sideline. The studios realized over $3.2 billion in revenue generated from videotape sales last year, 50% more than they got from theatrical releases *(see chart)*. Nearly 18% of that gross was accounted for by just five releases. It is these releases that the mass merchants are selling.

Alexander & Associates, a New York City-based video consulting firm, reports that mass merchants and department stores sold more than twice as many videos as video stores in the fourth quarter of 1989. Already the video stores' 17% market share looks pale next to mail order's 17% and grocery stores' 12% share.

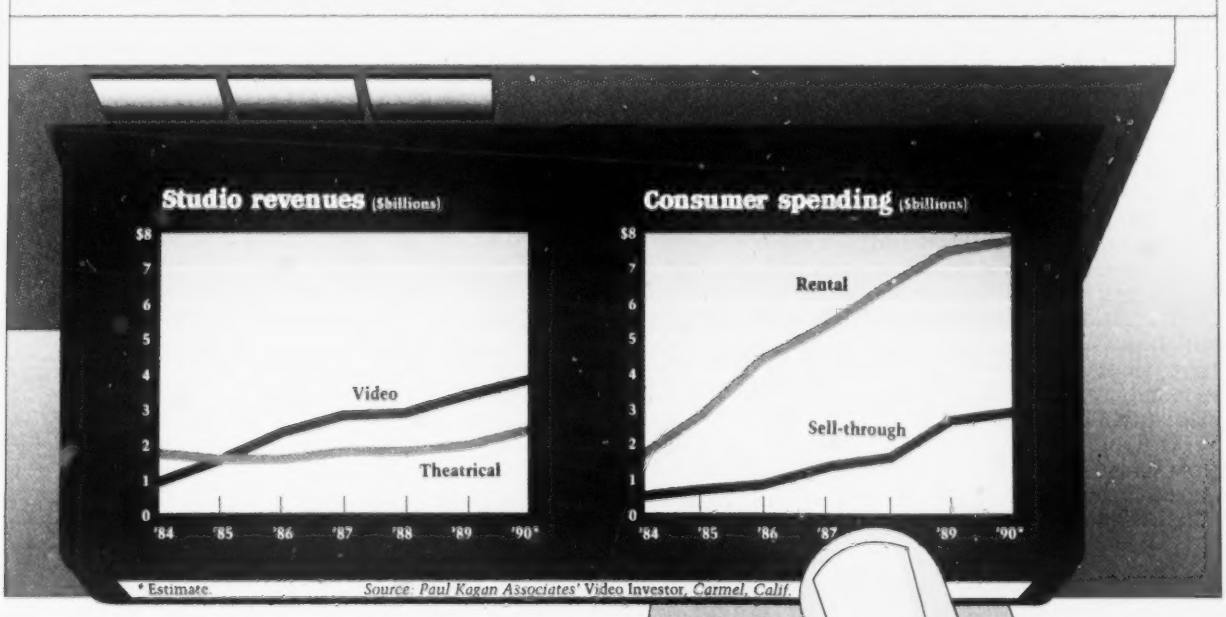
But if the video stores are a shrinking part of the business, they are not necessarily doomed. Note, for example, that last year's biggest sell-through hit, *Batman*, which sold 13 million copies, was also a heavy renter. According to Alexander & Associates, *Batman* set rental records, renting 11.6 million times in three weeks after it was released in video. Most of this rental business went to the video stores.

Moreover, for true movie buffs—and they are legion—a rack loaded with a few dozen of the latest hits will not satisfy their movie lust. Every year now, between 3,000 and 4,000 titles are released in the U.S. But only a handful are released at the mass market price. Your typical supermarket or K mart rack stocks maybe 200 titles at one time, and as soon as sales slow, the title disappears.

Richard Cohen, senior vice president of Disney's Buena Vista home video division, is one studio executive who thinks—and hopes—the rental business will remain viable. Disney intentionally did not release its box office hit *Three Men and a Baby* at mass market prices, choosing instead to list

Staying home to go out to the movies

In 1986 videocassettes overtook theater as America's preferred medium for viewing movies. The result: more money to Hollywood studios and to those selling and renting videotapes. But as sell-through makes its ascent, the rental business appears to be reaching a plateau. Can the mom-and-pops survive?



* Estimate. Source: Paul Kagan Associates' Video Investor, Carmel, Calif.

it at $89.95 a tape. It sold a rather modest (by *Bambi* standards) 690,000 copies but made Disney almost $40 million. At mass market prices, Disney would have had to sell over 3 million copies of the film to match its profit from the rental market. That's because the rental market's higher prices mean higher profit margins.

"From our point of view, we regard the sell-through and rental businesses as two related but distinct businesses," says Cohen. "Any indication that one is cannibalizing the other is bad news to us."

Herb Fischer, senior vice president of sales and marketing for MGM/UA, agrees. He notes that MGM/UA decided not to release its hit film *Rain Man* (box office gross: $170 million) into the sell-through market, releasing it instead at $89.95, thus pricing it out of the mass market. At that price *Rain Man* has sold around 600,000 copies and brought MGM/UA around $30 million in badly needed revenues *(see preceding story)*. Would MGM/UA have done better selling it to the mass market? Perhaps there are millions of households out there that want to own the film. But probably there aren't.

The proliferation of video stores is certainly over. But the business is not dead. It will simply require more ingenuity. For his 60-store Omaha-based chain, Applause Video's Allan Caplan spent $7,700 for about 540 copies of *Who Framed Roger Rabbit*—to rent. As of Dec. 15, Caplan's return was $28,000 in rental alone. Caplan noticed that about a third of *Rabbit* inventory wasn't moving. He pulled them, shrink-wrapped them, and sold them to the public as "previewed" (i.e., used) tapes at $8.88.

"That brought my cost of acquisition down to a little under $6,000," Caplan smiles. "Since then rental activity has brought me to $33,000."

Pressing their usefulness to the studios, the retailers are beginning to ask for some favors. Example: The studios currently grant airlines a crack at their films before releasing them on video. The video store operators are now demanding a similar exclusive two-to-three-week window over the mass merchants. Another request: Give the rental firms a break on the cost of the videotapes.

The studios, not wanting to kill the video stores, will likely cooperate. They hardly want to end up at the tender mercies of K mart or Wal-Mart. "The local specialty stores are our lifeblood," says MGM/UA's Fischer. "We've had differences, like any marriage, but we do love each other." ■

Is Wall Street a place or a system? If two recent government reports are correct, Wall and Broad may one day become a picturesque shopping mall.

"The market is a price, not a place"

By Richard L. Stern

TWO SOON-TO-BE-RELEASED congressional studies, one from the General Accounting Office, the other from the Office of Technology Assessment, are sharply critical of the way in which securities currently are traded in the U.S.

The 50-page General Accounting Office study, due out in March, questions whether the Securities & Exchange Commission has complied with a 1975 congressional mandate to eliminate regulations that give the New York Stock Exchange a monopoly on trading its stocks.

The Office of Technology Assessment, for its part, has just completed one of the most thorough examinations of the U.S. markets in years. Its 500-page report says that the U.S. exchanges are far behind in using the computer technology that is available to make them cheaper and more efficient. U.S. securities exchanges are moving too slowly toward full computerization of their markets, the report warns, adding that unless they get a move on, they may not survive as efficient global traders. A Wall Street pension fund, say, will soon be able to move big blocks of stock through Tokyo as easily as through the Big Board. Junius Peake, a stock market consultant and one of the first architects of a prototype electronic national market, explains: "The market is a price, not a place."

Among other things, the Office of Technology Assessment concludes:

- "Soon the specialist system may be unredeemably obsolete." This is a blow against the New York Stock Exchange, which has energetically resisted any major tinkering with its Rule 390, which requires that its member firms bring all orders in exchange-listed stocks to exchange-floor specialists.

Chas B. Slackman

- The Securities & Exchange Commission and the Commodities Futures Trading Commission should be merged into one superagency as the best way of regulating program trading, program arbitrage and other trading techniques that have linked the trading of futures and underlying stocks inexorably together.
- The open outcry systems on the Chicago futures and options exchanges are "colorful but archaic" and do not meet the demands of the fast-paced, 24-hour trading environments of the future.

The thrust of both reports, particularly that of the Office of Technology

World shipping has recovered smartly from the 1986 slump. Is the recovery over? Or are the shipping stocks just resting?

Ships ahoy!

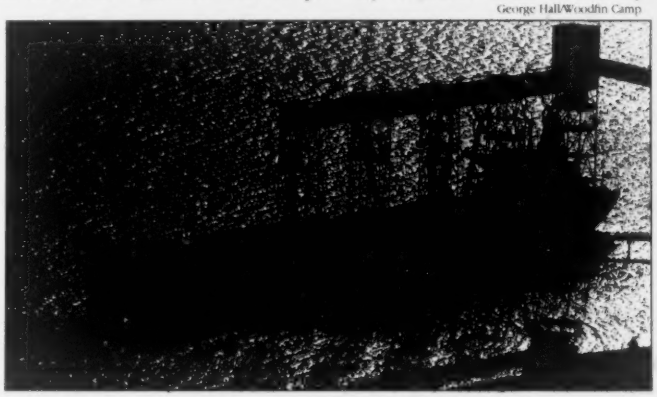
By Spyros Manolatos

SHIPPING STOCKS were hot in last year's first half, rising 50% faster than the S&P 500. From a low point in 1986, the world shipping business has recovered, and the market has reflected the gain. But in the second half of 1989 the stocks went into the doldrums, underperforming the market. Is the rise over in shipping stocks? Or are they just resting?

Just resting, says James Winchester of Mabon, Nugent, and a good many other shipping analysts as well. "In a nine-inning ball game," says Winchester, "we are probably in the fifth inning for the dry cargo business, and the fourth for the tanker business."

He has a point. Consider the tanker business. An index measuring charter rates for tankers is now at 63, versus 27 in 1986 and 48 last year. A tanker can bring in $21,000 per day, compared with $4,000 in 1986. Oil is hot today in world trade. With oil at around $20 per barrel, high-cost domestic producers are out of business, and OPEC is gaining market share, creating a strong demand for tankers. "OPEC can't go from 18 to 20 to 23 million barrels per day without the added production going on vessels," says James Dowling of Furman Selz, considered the dean of shipping analysts. World oil demand could grow by 1% to 2% over the next five years, but demand for long-haul crude like OPEC oil could expand 4% to 5% a year.

George Hall/Woodfin Camp



Strong demand, limited supply mean profits for tankers

Meanwhile, the supply of tankers has grown only slowly. It did not increase at all from 1977 to 1987. Then it moved up by 1%. That rate is not expected to change dramatically because of the cost of building a new tanker: A very large crude carrier (VLCC), which would have cost $40 million to build in 1986, would now cost at least $80 million.

How long will market conditions remain favorable? "Supply is fixed for the next two or three years," notes Thomas Sweeney, who manages the Fidelity Capital Appreciation fund and has invested 9% of his portfolio in shipping stocks. "So, if demand continues to grow, we are going to have some really boom times ahead." Gerhard Kurz, president of Mobil Shipping & Transportation, agrees. "The tanker market over the next five years should look very healthy," says he.

The tanker business is not the only one with favorable market conditions. So is dry bulk shipping—vessels that carry commodities such as iron ore, coal and grain. Since 1986 demand has risen 5% annually, but the supply of dry cargo ships has increased at less than 2% per year. An index of charter rates is now 18% higher than last summer and 200% higher than the summer of 1986. The market is expected to continue strong. One reason, says George Zannos, vice president at Chase Manhattan's shipping group, is that the Soviets are likely to import more grain; another, that the Chinese have entered the grain market.

So which stocks are the bulls buying? The table below lists several, including some of Thomas Sweeney's favorites. He has a big position in Oslo-based Bergesen Group, which

Bargain shipping stocks?

A good many people believe that shipping stocks are just resting. Prospects are bright for companies in specialized niches and for tankers and ships that carry dry bulk cargo. Here are some such stocks.

Company	12-month trailing revenues $mil	12-month trailing net income $mil	P/E	Estimated 1989 earnings per share*	Recent price	52-week high	52-week low
Alexander & Baldwin	$874	$213	8	$4.56	36½	39½	32¼
International Shipholding Corp	229	12	10	2.20	21½	23	6
OMI	193	23	13	0.27	11½	11	7⅜
Overseas Shipholding Group	328	53	18	1.45	24¾	25¾	18
Stolt Tankers & Terminals	508	68	11	2.49	23¼	29⅝	16⅝

*Source: Alex. Brown & Sons.

Self-liquidating companies

One novel way to play is to buy stock in companies formed to acquire secondhand vessels. Eventually, the ships will be sold and the companies folded. All but MC Shipping sell at discounts to net asset values.

Company	Debt/ capital	Estimated 1989 price/cash flow	Estimated 1990 price/cash flow	Net asset value per share	Recent price	52-week high	52-week low	Expense ratio
Anangel-American*	0.0%	2.35	4.30	$19.03	16⅞	18⅜	14⅝	4.4
B&H Bulk Carriers	24.6	2.45	2.45	13.32	5¼	13½	4⅞	10.3
B&H Maritime Carriers	21.8	1.83	4.25	17.78	15¼	17½	12¼	7.5
B&H Ocean Carriers	40.4	4.20	4.40	22.55	17½	20¼	14¼	7.5
MC Shipping	40.0	1.18	3.24	14.92	15¼	15⅜	12½	7.9
Nortankers	22.0	0.44	2.98	18.32	15½	18⅜	14	4.6

*Shareholders will vote on whether to liquidate the company in 1992.

Source: Mahon, Nugent, except stock data

owns and operates tankers. He also likes Hong Kong-based Wah Kwong, recently restructured, and two New York-based companies, Overseas Shipholding Group and OMI, which have strong managements and proven staying power. All four operate both tankers and dry bulk cargo ships.

One stock recommended by Michael Carstens at Tucker Anthony is Greenwich, Conn.-based Stolt Tankers & Terminals, which operates a fleet of 85 parcel tankers that carry specialty chemicals; it is the acknowledged leader in its field. Another stock, recommended by Sally Smith at Alex. Brown & Sons, is New Orleans-based International Shipholding Corp., which operates 24 vessels serving such market niches as car carriers and concentrates on medium- to long-term charters.

Another way to invest in shipping's good times is to buy stock in one of the self-liquidating companies formed to buy secondhand vessels *(see table above)*. But be choosy. There has been a proliferation of such companies since the first one went public in 1988, and some are dicier than others.

These companies are "self-liquidating" because, at some point, the ships will be sold and the companies folded, with part of the profits distributed to shareholders. Until the vessels are sold, all cash flow, net of expenses, is paid to equity holders until a specified yield—14% to 15%—plus the initial public offering price is returned. Once the yield is returned, management keeps around 30% of cash flow, and distributes the rest in special dividends to shareholders.

Among these self-liquidators, Anangel-American [FORBES, *Nov. 13, 1989*] has a respected management team, no debt, the lowest expense ratio, and is the only one that promises to pay out 100% of liquidation proceeds to shareholders (the others will pay out around 70%). ■

Watch the series that took lifetimes to create.

Ruby Dee.
Actress, writer, director.

Arthur Ashe.
Professional tennis player and sports commentator.

Father George Clements.
Founder of One Church One Child adoption agency.

Ellis Marsalis.
The Father of Modern Jazz.

Carl Stokes.
Judge and former Mayor of Cleveland.

Marian Wright Edelman.
Head of Children's Defense Fund.

Colin Powell.
Four star general, Chairman of the Joint Chiefs of Staff.

Guy Bluford.
First black astronaut to travel in space.

"Personal Diary" on Black Entertainment TV.

GE proudly presents a new series that took 26 lifetimes to create.

Thanks to the lifework of 26 black men and women, "Personal Diary" was made possible. Because the series was created to highlight their distinguished careers.

From four-star generals to professional athletes to political leaders. Each week "Personal Diary" will profile someone new, someone who's made a real difference.

So watch for "Personal Diary" on BET. It's a series that comes along maybe once every 26 lifetimes.

Check cable guide for listing.

GE

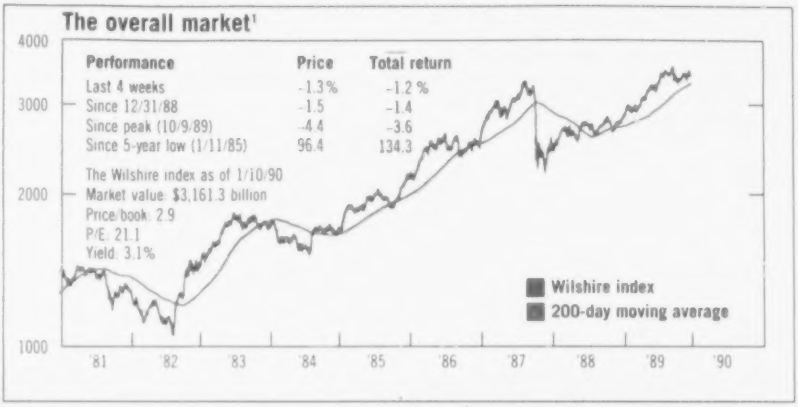
We bring good things to life.

The Forbes Wall Street Review

Edited by Eric S. Hardy

The Dow utility average, which some investors consider a contraindicator of future interest rates (meaning if it goes down, rates are likely to go up), fell a sharp 4.3% during the last two weeks, while the Dow industrials rose 1%. But the Wilshire index, which measures over 5,000 stocks, topped out back on Oct. 9. Since then the Wilshire is off 4.4%, with no sources of strength in sight.

Communism's decline could hurt some careless capitalists. Germany Fund, which has tripled in the past year, now sells at double the value of its portfolio.



Closeup on the Market

Index or investment	Price	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,369.43	-0.2%
Wilshire index 6,000 stocks, equal weighted	21.79	3.2
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,750.64	1.0
S&P 500 Capitalization weighted cross-section, major stocks	347.31	-0.4
NYSE Capitalization weighted, all listed common stocks	192.12	-0.3
Amex Capitalization weighted total return, stocks, warrants	378.29	1.4
Nasdaq Capitalization weighted, all issues except warrants	450.70	0.4
Amex international market index Capitalization weighted, 50 largest ADRs	335.44	3.2

Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[2] (EAFE) a dollar denominated capitalization weighted index	1035.10	-1.7%
Institutional[3] Approximately 200 stocks with high institutional ownership	113.37	-2.9
Individual[3] Approximately 200 stocks with low institutional ownership	102.08	-3.8
Technology Hambrecht & Quist index	257.35	-1.7
Gold[4] (Composite quote of 6 major dealers)	$409.50	0.7
Yen[4] (per $U.S.)	144.95	2.1
Commodity index[4] (CRB futures index: 1967 = 100)	234.10	2.3
Oil[4] (W Texas Intermediate)	$22.90	5.0
T Bills[4] (90 days)	7.47%	-14 basis points
Broker loan rate[4]	9.25%	-25 basis points

The Best Performing Stocks

Company	Price	2-week change	P/E	Reason
Pan Am	3⅛	45%	NA	Stock climbs on rumors that Carl Icahn may attempt to buy company
Freeport-McMoRan Copper	25	16	9	Increases quarterly dividend 19%, to 64 cents per share
JWP	33¾	15	19	Jamaica Water Supply subsidiary moves a step closer to being acquired by New York City
Chambers Development B	38	15	38	Analysts optimistic about company's recent acquisition of waste-disposal facility
Tandem Computers	25⅛	14	21	Analysts like its recently announced high-performance computer systems

The Worst Performing Stocks

Company	Price	2-week change	P/E	Reason
MGM/UA Communications	14¼	-20%	NA	Plans for sale of company put on hold
Prime Motor Inns	19⅞	-17	8	FORBES article questions accounting methods; Shearson Lehman Hutton lowers its opinion of stock
Midlantic	26½	-16	4	Outlook uncertain for New Jersey housing and commercial real estate markets
Oracle Systems	19½	-16	30	Investors fear company's financial condition may be deteriorating; plans to issue more debt
West Point-Pepperell	36⅛	-13	30	Doubts surface over William Farley's ability to complete acquisition of company

Note: All data for periods ending 1/10/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization-weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Morgan Stanley Capital International Perspective. [3]For period ending 1/12/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [4]Knight-Ridder Financial Information. [5]A basis point is equal to one-hundredth of a percentage point. NA: Not applicable.

New Issues Review

Edited by Charles M. Bartlett Jr.

The biggest[1]

Company/business	Exchange	Offer date	Offer price	Recent price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
PolyGram NV/entertainment	N	12/14/89	16	17 ¾	$224	Prudential-Bache	11%	10%
Enron Oil & Gas/oil & gas exploration	N	10/4/89	18¾	25 ¼	14€	First Boston	35	36
First Brands/consumer products	N	12/13/89	19	18 ¾	98	First Boston	–1	–2
Arkla Exploration/oil & gas exploration	N	12/7/89	20¾	22 ⅞	88	Morgan Stanley	10	8
Berlitz International/language schools	N	12/13/89	16½	16 ⅝	83	Goldman, Sachs	1	1
Potash of Saskatchewan/mfg fertilizer	N	11/1/89	15⅜	15 ½	60	Merrill Lynch	–12	–15
Home Nutritional Svcs/infusion svcs	O	12/14/89	16½	15 ⅜	66	Smith Barney	–7	–7
MIPS Computer Sys/computer equip	O	12/21/89	17½	19 ½	63	Morgan Stanley	11	9
Urcarco/retail used autos	O	11/15/89	11	16 ⅛	38	Alex Brown & Sons	49	43
Giant Industries/refinery	N	12/14/89	13½	14 ½	38	Shearson Lehman	7	7

Performance Update

No surprise here: 1989 was another bad year for new issues. According to Securities Data Co. of Newark, N.J., initial public offerings rose from $4.3 billion in 1988 to $4.9 billion last year (that's not counting ADRs, closed-end funds and limited partnerships). Even then some of last quarter's biggest deals were merely corporate restructurings, not genuine IPOs. The largest offering, PolyGram N.V. for $224 million, remains 80% owned by parent N.V. Philips. Enron Corp. and Arkla, Inc. took advantage of an improved market for exploration companies and sold off part of their exploration holdings. London-based Maxwell Communications, a publicly held publishing giant, sold 44% of Berlitz International, a $185 million (revenues) operator of language schools.

First Boston's $98 million offering of First Brands brought this former Union Carbide division back to Wall Street. The division had gone private in 1986, when Union Carbide was fighting an unwanted takeover.

Alex. Brown & Sons continues to dominate the underwriting of small computer software outfits. The two best-performing offered during the quarter were Brown's Parametric Technology and Caere. Another leading new issue was Keegan Management, the largest franchisee of Nutri/System weight-loss centers.

The best[1]

Company/business	Offer price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Parametric Tech/graphics software	12	$20	Alex Brown & Sons	75%	72%
Caere/recognition software	12	23	Alex Brown & Sons	52	49
Urcarco/retail used autos	11	38	Alex Brown & Sons	49	43
Employee Benefit/pension svcs	12	30	Dean Witter	48	49
Keegan Mgmt/weight-loss ctrs	7	9	HJ Meyers	46	42

The worst[1]

Company/business	Offer price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Harmonia Bncp/bank holding	10	$27	Shearson Lehman	–20%	–24%
ImmunoGen/pharmaceutical svcs	10	15	PaineWebber	–20	–23
Robec/wholesale computer equip	10½	14	Robinson Humphrey[4]	–17	–16
Industrial Funding/lease equip	12¼	23	Alex Brown & Sons	–16	–18
ECI Environmental/asbestos svcs	9	10	Oppenheimer	–14	–17

The most active investment banker[1]

Underwriter	Total offerings	Total raised ($mil)
Goldman, Sachs	10	$1,437
First Boston	5	586
Shearson Lehman[5]	7	387
Merrill Lynch	9	360
Alex Brown & Sons	16	336

Industries going public[1]

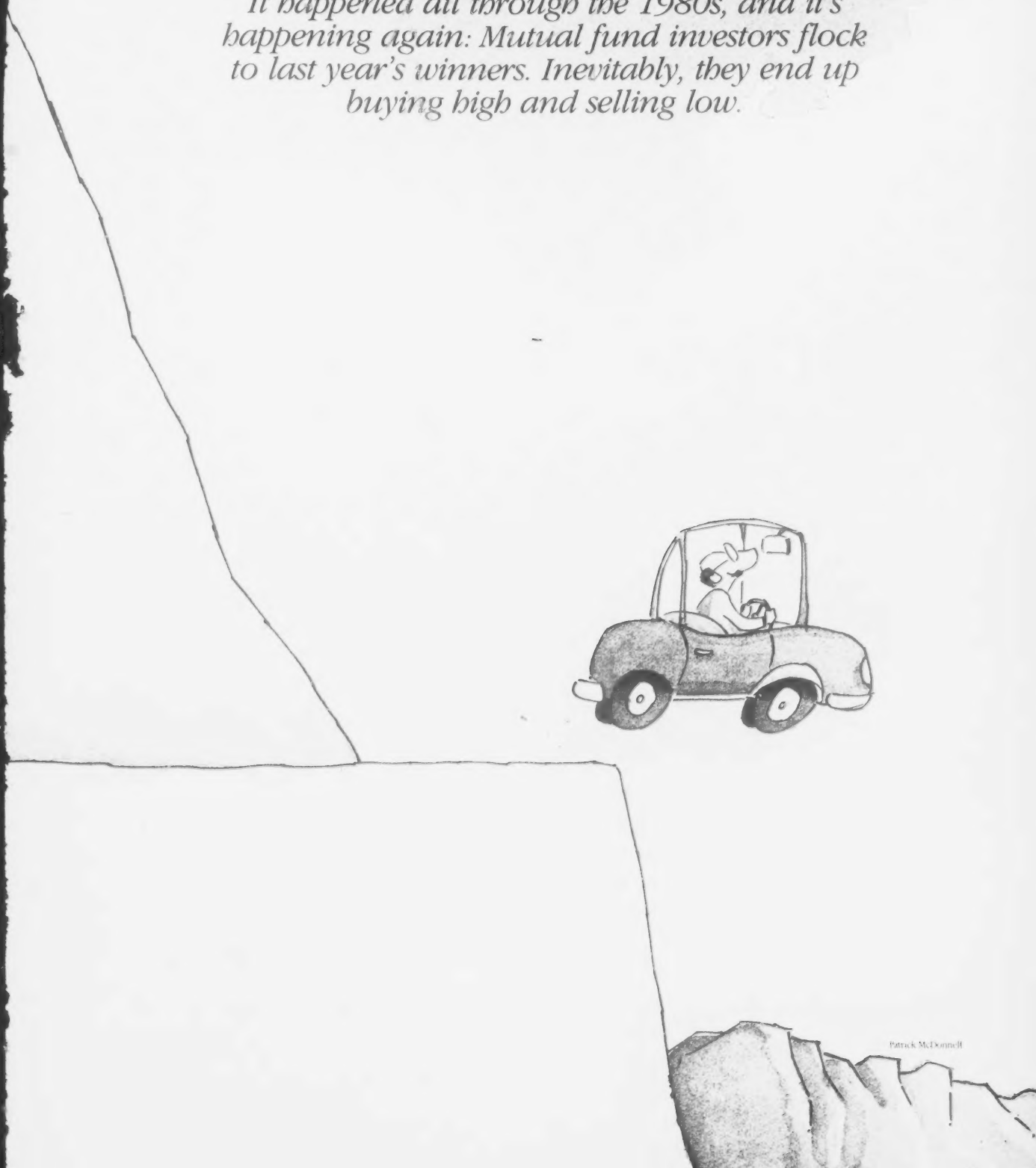
Industry	Total offerings	Total raised ($mil)
Chemicals	2	$987
Oil & gas exploration	3	262
Office equipment	1	252
Entertainment	1	224
Oil producer	1	182

Notes: Initial public offerings of common equities with offer date of 10/1/89 to 12/31/89, offering price of $2.50 or more and offering value of $5 million or more. Closed-end funds, limited partnerships, and ADS (American Depositary Shares) of corporations already traded in foreign countries are excluded. [1]Last quarter. [2]The percentage by which the ending value of $100 invested in the stock exceeds the ending value of $100 invested in the market. [3]Latest 12 months. [4]Subsidiary of Shearson Lehman Hutton. [5]Includes Robinson Humphrey offerings. Source: Securities Data Co.

The Funds

Edited by Jonathan Clements

It happened all through the 1980s, and it's happening again: Mutual fund investors flock to last year's winners. Inevitably, they end up buying high and selling low.



The perils of investing through a rearview mirror

THE TIMING OF most stock fund investors is so spectacularly bad that you could almost make a contrary indicator out of it. They were cashing in their shares in the late 1970s and early 1980s, when stocks were cheap. They started buying after the bull market of 1982-83 got under way. And their buying reached a crescendo just before the market turned down in June 1983. They were selling again at the end of 1984, as the market was getting ready for a powerful upward swing.

Some folks never learn. The public was again a heavy buyer of mutual fund shares in the summer of 1987, just in time for the crash. Following the October 1987 crash, fund investors stayed away from the market in droves, while stocks bounced back.

All this makes the recent activity in the fund business at least a little bit ominous. The market shot up 27% last year, putting investors in a buying mood again for equity mutual funds. It makes one wonder if the market is about to collapse, for the sheep once again are flocking to the shearing sheds.

In late December, for instance, the Vanguard Group had to activate its 100-strong "Swiss army," a motley crew of senior management, accounting personnel and money market fund managers who are drafted to answer the phones when business gets hectic. At the Fidelity Investor Center in Boston, the lunchtime crowd now queues five and ten deep, waiting to open accounts and make new investments. Denver's Janus Group received 22,000 requests for propectuses in December, up from 8,000 for all of 1988.

Net sales of equity funds may well have topped $2 billion in December, the industry's first $2 billion month since September 1987, just before the market crash. January promises to be even better. We can't predict when sales will top out, but it's a reasonable bet that when the dust settles the selling peak will have been very close to a market peak.

Look at the chart on page 186, which shows that investors tend to sell stock funds after the market has tanked and buy only after equities have posted healthy gains. If you had run with the crowd, you would have been out of

the market for most of the last decade, and you would have been in it at almost the worst possible times. Your total return for the 1980s would have been 16%. If you had bought and held, you would have made 400%.

Investors don't do much better at sector selection. United Services-Gold Shares was the third-poorest-performing fund in 1988, and the second best in 1989. Shareholders' response was all too predictable. "In the first part of 1989, we lost about $40 million in actual shareholder money," says J. David Edwards, the fund's chief investment officer. "We got that back, plus some, in the final part of the year."

The timing of fund investors is so consistently wrong that it looks like the old odd-lot indicator. That was a measure of buying and selling in lots of under 100 shares (i.e., by small investors), the idea being that at crucial turns in the market smart investors should do the opposite of what small investors were doing. In a market where small investors no longer invariably trade in odd lots, this indicator has lost its usefulness. But the stock-fund indicator looks like a handy replacement. The formula would be pretty simple: Do your buying when the Investment Company Institute is reporting net redemptions by holders of equity funds. Get out when fund sales are setting records.

If you aren't into technical indicators and timing, you can still draw some wisdom from the 1980s. One lesson is to take the long view, so that you aren't tempted to bail out after a crash or to jump in heavily after a long, sustained rise. Twentieth Century Select, the $2.8 billion growth fund that picks companies based on earnings and sales momentum, is a risky fund, if you measure risk by month-to-month volatility. For the patient investor, though, it's not risky, as some arithmetic by San Francisco fund analyst Kenneth Gregory shows. Analyzing Select's record since 1975 on a quarterly basis, he found that Select would have outperformed a money market return in 47 of the 49 overlapping three-year periods. The poorest three-year performance was a gain of 7% a year. Gregory advises fund buyers to plan on holding their funds for at least three years, and preferably longer.

Next, invest with good stock pickers. A good place to start is with the table on the facing page, where we offer our semiannual update on 447 stock and balanced funds. Pay particular attention to down-market grades. Funds like Lindner, Nicholas and Selected American Shares make the FORBES honor roll by earning a B or better in bear markets while maintaining a healthy long-term total return *(Sept. 4, 1989)*.

The problem with any fund-rating system is that it tends to give credit to fund managers whose investing style has recently been working well. But this is no guarantee that it will continue to work well. Even the best-performing funds will have dry periods. Selected American Shares' Donald Yacktman has put together a fine record by using free cash flow analysis to buy companies with market values of $1 billion and up. The rating system tells you that Yacktman will probably do better than most stock pickers if we continue to have a market that favors S&P 500-type companies. The rating system cannot, however, tell you whether big-company stocks will continue to perform well. However, if you are comfortable with Yacktman's style and won't worry if he lags sometimes, you could do worse than to buy his fund on the record.

Finally, remember that measures of recent performance (last-quarter or last-year returns) are always heavily influenced by cyclical factors that can easily reverse. Small-company stocks had yet another relatively poor year in 1989, and disenchanted investors are going elsewhere to get some action. But the recent poor performance of small-company stocks makes them relatively cheap now. Thus, a fund that specializes in them could be a very good investment. In this sector fund analyst Kenneth Gregory recommends Nicholas Limited Edition, GIT Equity Trust-Special Growth, Acorn and Pennsylvania Mutual.

Now to the FORBES ratings. Rated are stock and balanced funds that have at least $2 million in assets and that have been around for at least two market cycles, as determined by the S&P 500 average. The two most recent market cycles span the period since June 30, 1983. Stock funds that date back to Nov. 30, 1980 are rated over three market cycles. Foreign equity funds are rated over different market cycles, as determined by a Morgan Stanley Capital International dollar-adjusted overseas index.

Data for the tables come from the FORBES/CDA Mutual Fund Evaluator, a microcomputer-based screening and reporting package, with additional information coming from New York's Lipper Analytical Services. Taxable bond funds are in a table beginning on page 192. The municipal bond fund table is on page 194.—**J.C.**

Bad timing

Stock fund investors were terrible market timers in the 1980s. Anyone who got into the market during fund buying peaks and got out when fund sales were in the doldrums would have been invested for only a few years (blue shading)—and not very good years at that. Cumulative return for the hypothetical crowd-follower: 16%, against 400% for a buy-and-hold strategy.

*3-month moving average. Source: Investment Company Institute

Fund Ratings

Stock and balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
ABT Growth & Income Trust	B	D	15.1%
ABT Invest-Emerging Growth	A	D	32.5
ABT Invest-Security Income	D	A	17.4
ABT Utility Income Fund	D	A	34.0
*Acorn Fund	B	C	21.5
Adams Express	C	B	38.7
Affiliated Fund	B	B	23.5
*Afuture Fund	F	C	14.1
Aim Convertible Securities	D	D	14.8
Aim Equity-Charter Fund	C	B	37.9
Aim Equity-Constellation Fund	A+	F	37.6
Aim Equity-Weingarten Equity Fund	A+	D	35.9
Aim Summit Fund	B	D	30.7
Alliance Balanced Shares	A	B	13.8
Alliance Dividend Shares	A	B	25.2
Alliance Fund	B	D	23.5
†Alliance Global-Canadian Fund	D	B	21.7
Alliance International Fund	B	C	29.3
Alliance Quasar Associates	A+	D	28.2
Alliance Technology Fund	A+	D	6.0
AMA Growth Fund-Classic Growth	D	D	20.2
Amcap Fund	C	B	26.8
American Balanced Fund	B	B	21.4
American Capital Comstock Fund	C	A	30.4
American Capital Convertible Sec	B	C	14.5
American Capital Enterprise Fund	B	D	30.9
*American Capital Exchange Fund	C	D	28.0
American Capital Harbor Fund	B	D	20.6
American Capital Pace Fund	C	A	28.3
American Capital Venture Fund	D	A	29.0
American Growth Fund	D	A	24.7
American Investors Growth Fund	C	F	33.5
American Leaders Fund	D	A	11.7
American Mutual Fund	D	A	25.1
American National Growth Fund	B	C	24.3
American National Income Fund	D	A	25.5
AMEV Capital Fund	B	B	38.2
AMEV Fiduciary Fund	A	C	40.2
AMEV Growth Fund	A	C	42.6
Amway Mutual Fund	C	C	32.4
*Analytic Optioned Equity Fund	D	A	17.8
*Armstrong Associates	D	C	14.1
†ASA Limited	D	D	47.5
Axe-Houghton Fund B	B	D	20.6
Axe-Houghton Stock Fund	A	F	29.8
*Babson Growth Fund	B	D	22.1%
Baker, Fentress & Co	C	B	19.0
Bancroft Convertible Fund	D	D	10.7
*Bartlett Capital Trust-Basic Value	C	A	11.7
*Bascom Hill Investors	D	A	16.0
*Beacon Hill Mutual Fund	D	B	21.1
Bergstrom Capital	C	A	28.7
Boston Co Capital Appreciation Fund	B	C	24.4
Bridges Investment Fund	D	B	19.9
Bull & Bear Capital Growth Fund	C	D	29.5
Bull & Bear Equity-Income Fund	D	B	15.1
†Bull & Bear Gold Investors	F	D	19.3
Calvert Fund-Equity	C	C	30.3
Calvert Social Inv-Managed Growth	C	C	18.7
*Capital Exchange Fund	D	B	21.6
Cardinal Fund	B	A	22.1
Castle Convertible Fund	D	B	10.8
Central Securities	C	D	10.1
*Century Shares Trust	B	A	41.3
*Chestnut Street Exchange Fund	B	B	26.3
Cigna Growth Fund	C	C	28.6
Colonial Fund	A	D	21.3
Colonial Growth Shares Trust	A	C	29.3
Colonial Strategic Income-Diversified	D	B	9.9
*Columbia Growth Fund	A	B	27.8
Commonwealth Investment-Balanced[1]	D	A	13.2
Composite Bond & Stock Fund	C	C	12.3
Composite Growth Fund	D	A	11.9
*Copley Fund	D	A	17.8
Country Capital Growth Fund	C	C	26.0
Country Capital Income Fund	F	A	13.5
Dean Witter American Value Fund	C	C	25.8
Dean Witter Developing Growth Secs	D	D	15.0
Dean Witter Dividend Growth Secs	C	A	31.4
Dean Witter Natural Resource Dev	C	C	31.5
†Dean Witter World Wide Investment	D	A	12.0
Delaware Group Decatur Fund-I	C	A	21.3
Delaware Group Trend Fund	A+	C	49.4
*Depositors Fund of Boston	B	D	25.6
*Diversification Fund	B	C	24.2
Dividend/Growth-Dividend	D	B	15.3
*Dodge & Cox Balanced Fund	B	C	22.9
*Dodge & Cox Stock Fund	A	B	26.8
Drexel Burnham Fund	D	A	22.5
*Dreyfus Convertible Securities Fund	B	D	15.1

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 3/31/84 to 7/31/84, and 8/31/87 to 10/31/87, and for up market periods from 9/30/82 to 3/31/84, 7/31/84 to 8/31/87, and 10/31/87 to 12/31/89. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. [1]Formerly Commonwealth Indenture C.

Fund Ratings

Stock and balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
Dreyfus Fund	D	B	23.5%
*Dreyfus Growth Opportunity Fund	C	D	14.5
Dreyfus Leverage Fund	D	B	20.4
*Dreyfus Third Century Fund	D	C	17.2
Eagle Growth Shares	D	C	51.7
Eaton Vance Growth Fund	B	B	30.2
Eaton Vance Income Fund of Boston	D	A	4.2
Eaton Vance Investors Fund	C	C	20.6
Eaton Vance Special Equities Fund	D	B	23.2
Eaton Vance Stock Fund	C	B	28.5
Eaton Vance Total Return Trust	D	A	33.4
Engex	A	F	15.4
Enterprise Group-Growth	B	B	23.1
*Equity Strategies Fund	D	C	10.3
*Evergreen Fund	B	C	14.7
*Evergreen Limited Market Fund	A	B	20.3
*Evergreen Total Return Fund	D	A	16.8
Excel Value Fund	D	B	18.0
*Exchange Fund of Boston	C	C	20.1
*Fairmont Fund	C	C	6.8
FBL-Growth Common Stock	D	C	13.7
*Federated Exchange Fund	C	C	13.6
*Federated Stock Trust	C	A	12.9
*Federated Stock & Bond Fund	D	A	12.5
*Fidelity Congress Street Fund	A	B	33.2
*Fidelity Contrafund	A	D	43.1
*Fidelity Destiny Portfolio I	A+	B	25.4
Fidelity Equity Income Fund	C	A	18.7
*Fidelity Exchange Fund	B	C	29.4
*Fidelity Freedom Fund	A	C	30.3
*Fidelity Fund	B	B	28.5
Fidelity Growth Company	A	D	43.7
Fidelity Magellan Fund	A+	B	34.5
Fidelity Puritan Fund	A	B	19.6
Fidelity Select-Energy	D	C	42.8
Fidelity Select-Financial Services	C	B	19.4
Fidelity Select-Health Care	A+	D	42.5
Fidelity Select-Prec Metals & Mins	D	C	32.2
Fidelity Select-Technology	B	D	17.0
Fidelity Select-Utilities	D	A	39.0
*Fidelity Trend Fund	A	D	31.3
*Fidelity Value Fund	B	B	23.0
*Fiduciary Capital Growth Fund	C	C	17.9
*Fiduciary Exchange Fund	A	C	29.8
*Financial Dynamics Fund	C	D	22.7
*Financial Industrial Fund	C	D	30.6%
*Financial Industrial Income Fund	C	A	31.1
*†Financial Strategic-Pacific Basin	B	D	20.2
†First Investors Global Fund[1]	B	C	37.7
44 Wall Street Equity Fund	A	F	23.5
44 Wall Street Fund	D	F	5.8
Founders Blue Chip	B	C	35.2
Founders Equity Income Fund	D	A+	25.2
Founders Growth Fund	B	C	41.2
*Founders Special Fund	A	D	38.8
FPA Capital Fund	C	C	24.3
FPA Paramount Fund	C	A	21.8
Franklin DynaTech Fund	C	C	29.5
Franklin Equity Fund	B	D	17.4
†Franklin Gold Fund	C	D	41.8
Franklin Growth Fund	C	B	23.7
Franklin Income Fund	D	A	12.5
Franklin Option Fund	D	B	13.7
Franklin Utilities Fund	D	A+	25.6
Fund of America	C	B	15.5
Fund of the Southwest	D	D	32.8
Fundamental Investors	A	B	28.5
*Gateway Option Index Fund	D	A	19.4
General American Investors	B	D	35.9
*General Securities	C	B	20.5
George Putnam Fund of Boston	A+	C	23.6
Gintel Erisa Fund	D	A	15.0
*Gintel Fund	C	B	23.4
*GIT Equity Trust-Special Growth	B	F	25.1
*GPM Fund	B	D	7.7
Growth Fund of America	B	B	30.0
*Growth Industry Shares	C	C	30.9
†GT Global Growth-Pacific	A	C	48.1
Guardian Park Ave Fund	A	B	23.7
John Hancock Growth Trust	B	D	30.7
Hartwell Emerging Growth	A+	F	38.6
Hartwell Growth Fund	A+	D	35.0
*IAI Regional Fund	A	B	31.1
*IAI Stock Fund	C	B	29.6
IDS Discovery Fund	B	D	30.9
IDS Equity Plus	B	C	29.1
IDS Growth Fund	A	D	36.4
IDS Mutual	C	B	20.3
IDS New Dimensions Fund	A	B	31.6
IDS Progressive Fund	D	B	10.5

*Fund has no load or shareholder paid 12b-1 plan. †Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 3/31/84 to 7/31/84, and 8/31/87 to 10/31/87, and for up market periods from 9/30/82 to 3/31/84, 7/31/84 to 8/31/87, and 10/31/87 to 12/31/89. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe-Australia-Far East) Index. [1]Formerly First Investors International Securities.

Fund Ratings

Stock and balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
IDS Stock Fund	C	B	29.4%
Income Fund of America	C	A+	22.7
Investment Co of America	B	B	29.3
Investment Tr of Boston-Growth Opp	C	D	27.6
Investors Research Fund	B	D	21.5
ISI Growth Fund	F	A	12.1
ISI Trust Fund	F	A+	26.0
*Ivy Growth Fund	C	A	23.7
*Janus Fund	B	A	46.3
*†Japan Fund	A	B	9.7
JP Growth Fund	D	B	31.1
Kemper Diversified Income Fund	F	A	8.0
Kemper Growth Fund	B	D	30.7
†Kemper International Fund	B	C	18.1
Kemper Summit Fund	A	D	26.1
Kemper Technology Fund	B	D	24.7
Kemper Total Return Fund	A	F	19.8
Keystone America Omega	B	D	32.9
Keystone Custodian K-1	C	C	19.7
Keystone Custodian K-2	B	D	24.0
Keystone Custodian S-1	C	C	29.1
Keystone Custodian S-3	B	D	24.8
Keystone Custodian S-4	A	F	23.6
†Keystone International Fund	D	B	4.0
†Keystone Precious Metals	D	D	24.6
†Kleinwort Benson-International Equity	B	C	22.6
Legg Mason Value Trust	B	B	20.0
Lehman Capital Fund	A+	B	39.8
Lehman Corp	C	B	23.8
Lehman Investors Fund	C	B	21.7
*Lehman Opportunity Fund	B	B	20.8
Lepercq-Istel Fund	D	C	21.6
*Lexington Corp Leaders Trust Fund	A	C	33.6
*Lexington Goldfund	D	B	23.8
*Lexington Growth Fund	B	D	28.1
*Lexington Research Fund	C	C	27.4
*Lindner Fund	D	A+	21.2
*Loomis-Sayles Capital Development	A+	B	17.9
*Loomis-Sayles Mutual Fund	A+	C	21.6
Lord Abbett Developing Growth	D	D	14.1
Lord Abbett Value Appreciation	B	C	20.0
Lutheran Brotherhood Fund	D	A	26.6
*Mairs & Power Growth Fund	C	C	27.8
*Mairs & Power Income Fund	D	A+	17.7
*Horace Mann Growth Fund	C	C	29.8
Mass Capital Development Fund	B	C	28.5%
Mass Financial Development Fund	A	D	35.8
Mass Financial Emerging Growth Trust	A	D	25.8
Mass Financial Special Fund	B	D	22.3
Mass Financial Total Return Trust	A	C	23.1
Mass Investors Growth Stock Fund	B	C	50.1
Mass Investors Trust	B	C	36.1
*Mathers Fund	D	C	10.4
Meeschaert Capital Accumulation	F	A	18.0
Merrill Lynch Basic Value Fund-A	B	B	17.5
Merrill Lynch Capital Fund	C	A	22.8
Merrill Lynch Equi-Bond I Fund	D	B	14.5
†Merrill Lynch Pacific Fund	A	C	15.1
Merrill Lynch Phoenix Fund-A	C	C	13.8
Merrill Lynch Special Value-A	D	D	0.4
†Mexico Fund	A+	C	67.3
MidAmerica High Growth Fund	D	B	15.7
MidAmerica Mutual Fund	D	A	17.5
Mutual Benefit Fund	A	B	28.2
Mutual of Omaha Growth Fund	C	C	33.2
Mutual of Omaha Income Fund	F	A	15.8
*Mutual Series Fund-Mutual Shares	D	A	14.9
*Mutual Series Fund-Qualified	D	A+	14.4
National Aggressive Growth Fund[1]	B	D	9.1
National Aviation & Technology	B	D	39.3
*National Industries Fund	D	C	24.5
National Stock Fund	C	B	26.3
National Telecom & Tech	D	D	16.6
National Total Income Fund	C	B	21.3
National Total Return Fund	B	C	27.3
Nationwide Fund	B	B	33.8
Nationwide Growth Fund	B	B	14.9
Nautilus Fund	D	D	14.1
*Neuberger & Berman Guardian Fund	A	C	21.5
*Neuberger & Berman Manhattan Fund	A	C	29.1
*Neuberger & Berman Partners Fund	D	A	22.7
*Neuberger & Berman Select Energy	C	C	29.8
*Neuwirth Fund	A	D	14.2
New Alternatives Fund	D	C	25.0
New England Equity Income Fund	D	A	10.3
New England Growth Fund	A	B	22.3
New England Retirement Equity Fund	C	A	23.3
†New Perspective Fund	C	A	25.6
New York Venture Fund	A	C	34.5

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 3/31/84 to 7/31/84, and 8/31/87 to 10/31/87, and for up market periods from 9/30/82 to 3/31/84, 7/31/84 to 8/31/87, and 10/31/87 to 12/31/89. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. [1]Formerly Fairfield Fund.

Fund Ratings

Stock and balanced funds

Fund	Performance in UP —markets—	DOWN —markets—	12-month total return
Newton Growth Fund	B	D	18.9%
Niagara Share Corp	C	D	26.4
*Nicholas Fund	C	A	24.5
*Northeast Investors Growth	B	C	32.9
Old Dominion Investors' Trust	D	B	16.3
One Hundred Fund	A	D	64.3
Oppenheimer Directors Fund	A	D	19.9
Oppenheimer Equity Income Fund	B	B	18.5
Oppenheimer Fund	C	D	23.6
†Oppenheimer Global Fund	C	C	34.7
Oppenheimer Gold & Special Mins	B	F	34.9
Oppenheimer Premium Income	F	A+	6.8
Oppenheimer Regency Fund	D	D	21.3
Oppenheimer Special Fund	D	C	21.2
Oppenheimer Target Fund	A	D	18.6
Oppenheimer Time Fund	A	D	27.7
Oppenheimer Total Return Fund	B	C	19.0
Over-the-Counter Securities Fund	C	B	19.1
Pax World Fund	C	D	24.7
Penn Square Mutual Fund	C	B	25.2
Pennsylvania Mutual Fund	B	B	16.7
Permanent Portfolios-Permanent	F	A	6.4
Petroleum & Resources Corp	D	D	35.7
Philadelphia Fund	D	C	32.4
Phoenix Balanced Fund	C	B	24.9
Phoenix Convertible Fund	B	B	20.0
Phoenix Growth Fund	B	A	27.4
Phoenix Stock Fund	B	B	21.5
Phoenix Total Return	D	A	18.4
Pilgrim MagnaCap Fund	C	C	23.7
*Pine Street Fund	C	C	24.8
Pioneer Fund	B	C	23.3
Pioneer II	B	B	22.2
Pioneer Three	C	B	20.4
*T Rowe Price Growth Stock Fund	C	D	25.0
*T Rowe Price Growth & Income Fund	C	B	19.2
*†T Rowe Price International Stock Fund	B	C	24.8
*T Rowe Price New Era Fund	C	D	24.2
*T Rowe Price New Horizons Fund	C	D	25.8
Princor Capital Accumulation Fund	D	A	14.2
Princor Growth Fund	B	D	17.6
Provident Fund for Income	B	B	21.7
Pru-Bache Equity Fund	B	B	31.0
Pru-Bache Growth Opportunity	B	D	19.0
Pru-Bache Option Growth Fund	B	B	22.0
Pru-Bache Research Fund	B	C	22.9%
Pru-Bache Utility Fund	C	A	37.0
Putnam Convertible Income-Growth	C	D	16.6
Putnam Energy-Resources Trust	D	F	34.8
Putnam Fund for Growth & Income	C	B	20.7
Putnam Health Sciences Trust	B	D	41.9
†Putnam International Equities Fund	C	C	24.6
Putnam Investors Fund	B	C	33.8
Putnam Option Income Trust	D	B	15.4
Putnam OTC Emerging Growth Fund	A	C	28.9
Putnam Vista Basic Value	A	B	25.4
Putnam Voyager Fund	A+	D	34.2
Quest for Value Fund	C	A+	20.0
Rea-Graham Fund	C	C	7.9
Rochester Tax Managed Fund	F	A	10.4
Royce Fund-Value	C	B	15.9
*Safeco Equity Fund	A	C	35.8
*Safeco Growth Fund	B	C	19.2
*Safeco Income Fund	C	A	20.7
Sci/Tech Holdings-A	D	B	10.8
*Scudder Development Fund	D	C	22.9
*Scudder Equity-Capital Growth	A	C	33.4
*Scudder Growth & Income Fund	C	C	26.1
*†Scudder International Fund	B	C	26.8
*Second Fiduciary Exchange Fund	C	C	22.7
Security Action Fund	C	C	18.8
Security Equity Fund	A	D	30.4
Security Investment Fund	D	C	20.4
Security Ultra Fund	C	F	11.6
Selected American Shares	D	A	19.5
Selected Special Shares	B	D	28.5
Seligman Capital Fund	A	D	32.0
Seligman Common Stock Fund	B	B	26.5
Seligman Growth Fund	B	D	33.5
Seligman Income Fund	D	A	15.0
Sentinel Balanced Fund	C	B	19.3
Sentinel Common Stock Fund	C	A	27.5
Sentinel Growth Fund	A	C	26.9
Sentry Fund	C	D	24.0
*Sequoia Fund	D	A+	27.7
Sherman, Dean Fund	D	F	47.3
Sigma Capital Shares	C	B	11.5
Sigma Investment Shares	C	B	28.5
Sigma Special Fund	B	D	16.8

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 3/31/84 to 7/31/84, and 8/31/87 to 10/31/87, and for up market periods from 9/30/82 to 3/31/84, 7/31/84 to 8/31/87, and 10/31/87 to 12/31/89. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index.

Fund Ratings

Stock and balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
Sigma Trust Shares	C	C	22.5%
Sigma Value Shares	B	D	27.1
Sigma Venture Shares	C	D	21.2
*Sit New Beginning Growth Fund	A	C	35.1
*Sit New Beginning Income & Growth	C	B	31.2
SLH Appreciation Fund	B	B	30.0
SLH Fundamental Value Fund	D	B	18.5
SLH Investment-Growth	C	C	26.1
SLH Investment-Special Equities	C	D	18.2
Smith Barney Equity Fund	C	C	30.9
Smith Barney-Income & Growth	C	A	25.0
SoGen International Fund	C	A+	17.2
Source Capital	D	A+	22.2
Sovereign Investors	D	A	23.7
Spectra Fund	A	D	31.4
State Bond Common Stock Fund	B	D	42.2
State Bond Diversified Fund	C	B	28.0
State Bond Progress Fund	C	D	28.0
*State Street Exchange Fund	B	C	31.5
State Street Growth Fund	B	C	40.8
State Street Investment Trust	B	C	32.1
Steadman American Industry Fund	F	D	5.8
Steadman Associated Fund	F	C	34.2
Steadman Investment Fund	F	D	9.0
Steadman Oceanographic Tech & Gro	F	F	29.9
*SteinRoe Capital Opportunities	A	F	35.8
*SteinRoe Special Fund	A	C	37.3
*SteinRoe Stock Fund	B	D	35.4
*SteinRoe Total Return Fund	C	F	20.2
Strategic Gold/Minerals Fund	F	C	-17.7
Strategic Investments Fund	F	D	61.3
*Stratton Growth Fund	B	C	23.7
*Stratton Monthly Dividend Shares	D	A+	18.6
Strong Investment Fund	D	A	11.1
Strong Total Return Fund	C	C	2.5
Surveyor Fund	A+	D	24.4
†Templeton Foreign Fund	C	B	30.8
†Templeton Global I	C	B	19.2
†Templeton Growth Fund	C	B	22.9
Templeton World Fund	B	B	22.9
Transamerica Growth & Income Fund	C	C	22.5
Transamerica Sunbelt Growth Fund	C	C	27.2
Transamerica Technology Fund	D	C	12.7
Tri-Continental Corp	B	C	31.3
*Tudor Fund	A	C	24.7%
*20th Century Growth Investors	A	D	43.1
*20th Century Select Investors	A	C	39.5
*20th Century Ultra Investors	A+	F	37.0
*UMB Stock Fund	C	B	19.1
*Unified Growth Fund	C	C	18.3
*Unified Income Fund	D	D	9.5
*Unified Mutual Shares	D	B	16.8
United Accumulative Fund	B	B	27.3
United Continental Income Fund	A	D	23.7
United Income Fund	A	A	27.3
†United International Growth	C	A	13.3
United New Concepts Fund	D	C	8.5
United Retirement Shares	B	C	23.2
United Science & Energy Fund	C	C	27.4
*†United Services-Gold Shares Fund	D	D	64.7
*United Services-Good & Bad Times	D	B	16.8
United Vanguard Fund	B	B	18.5
US Trend Fund	A	C	30.5
*USAA Mutual-Aggressive Growth	A	D	16.7
*USAA Mutual-Growth Fund	C	D	27.3
*Valley Forge Fund	F	A+	13.0
*Value Line Fund	C	C	31.0
*Value Line Income Fund	D	A	22.5
*Value Line Leveraged Growth Inv	C	B	32.1
*Value Line Special Situations Fund	D	D	21.9
†Van Eck International Investors	D	C	51.2
*Vance, Sanders Exchange Fund	B	C	29.8
Vance, Sanders Special Fund	D	C	22.1
*Vanguard Explorer Fund	D	D	9.3
*Vanguard High Yield Stock	D	A+	2.9
*Vanguard Index Trust-500 Portfolio	B	C	31.3
*Vanguard Small Cap Stock[1]	B	D	10.4
*†Vanguard Trustees Commingled-Intl	C	A	25.9
*Vanguard Trustees Commingled-US	B	B	17.2
*Vanguard Wellesley Income Fund	D	A+	20.8
*Vanguard Wellington Fund	A	C	21.5
*Vanguard Windsor Fund	B	A	14.2
*Vanguard WL Morgan Growth Fund	A	C	22.6
*Variable Stock Fund	D	B	35.6
Wall Street Fund	A	D	21.9
Washington Mutual Investors	B	A	28.9
Winthrop Focus Funds-Growth	D	D	26.7
*WPG Fund	B	C	27.4

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 3/31/84 to 7/31/84, and 8/31/87 to 10/31/87, and for up market periods from 9/30/82 to 3/31/84, 7/31/84 to 8/31/87, and 10/31/87 to 12/31/89. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. [1]Formerly Vanguard Naess & Thomas Special Fund.

Taxable bond funds

Fixed income funds are rated over three bond market cycles, covering the period Mar. 31, 1980 to Dec. 31, 1989. To be included here, a fund must have been in operation for at least the two most recent bond market cycles—since Sept. 30, 1981—or have $500 million in assets and at least 12 months of performance data. Municipal bond funds are listed separately on page 194.

As with stock funds, the idea is to show how a fund performs in up and down markets. Bond funds are given bull and bear ratings depending on their performance relative to the Merrill Lynch Corporate/Government bond index. Funds holding longer-maturity bonds will usually shine when interest rates fall, while those with the shortest maturities typically perform better in bear markets. Few funds do well in both types of market. Two closed-ends, Transamerica Income Shares and Mutual of Omaha Interest Shares, are exceptions. They earn an A+ for bull market performance and a B for bear markets.

Fund	Performance in UP —markets—	DOWN	12-month total return
*AARP Inc Trust-GNMA & US Treasury			11.7%
ACM Government Income Fund			13.7
ACM Government Securities Fund			13.9
Aim High Yield Securities	D	B	–4.0
Alliance Bond-Monthly Income Shares	B	C	13.0
Alliance Bond-US Government			12.5
Alliance Mortgage Securities Income			11.0
American Capital Bond Fund	B	C	4.1
American Capital Corp Bond Fund	C	B	5.2
American Capital Government Secs			14.8
American Capital High Yield Inv	C	D	–11.9
American Funds Income-US Govt Guar			11.7
AMEV Securities	B	D	5.5
AMEV US Govt Securities Fund	C	A	12.4
Axe-Houghton Income Fund	A	B	10.2
*Babson Bond Trust-Long-Term	D	A	15.3
*Benham Treasury Note Fund	D	A	12.0
Blackstone Target Term Trust			10.4
Bond Fund of America	C	B	9.9
Bunker Hill Income Securities	B	D	6.1
Cigna High Yield Fund	B	B	1.2
Cigna Income Fund	B	B	13.5
Circle Income Shares	C	B	10.8
CNA Income Shares	B	D	–4.8
Colonial Government Securities Plus			14.2
Colonial High Yield Securities	C	B	1.1
Colonial Income Trust	C	C	9.0
Composite Income Fund	C	D	5.8
Comstock Partners Strategy Fund			21.2
Current Income Shares	A	D	10.5
Dean Witter Government Income			12.3
Dean Witter Government Secs Plus			14.6
Dean Witter High Yield Secs	B	F	–13.6
Dean Witter US Govt Securities			11.0
Delaware Group Delchester High Yield-I	B	D	1.0
*Dreyfus A Bonds Plus	D	A	15.0%
Dreyfus GNMA Fund			12.3
1838 Bond-Debenture Trading Fund	F	A+	15.0
Excelsior Income Shares	B	D	13.7
*Federated GNMA Trust			15.0
Federated High Income Securities	C	C	–0.3
*Federated Income Trust			12.5
*Federated Intermediate Government			12.0
*Federated Short-Intermediate Govt			10.3
*Fidelity Flexible Bond Fund	C	D	13.1
*Fidelity Ginnie Mae			13.9
*Fidelity Government Securities Fund	D	B	12.6
*Fidelity High Income Fund	A	C	–3.2
*Fidelity Intermediate Bond Fund	D	A	11.9
First Australia Prime Income Fund			2.8
First Investors Fund for Income	D	D	–8.2
First Investors High Yield Fund			–9.2
Fort Dearborn Income Securities	A+	D	14.4
Franklin AGE High Income Fund	C	C	–3.6
Franklin US Government Securities	D	C	13.0
Fund for US Govt Securities	C	C	13.5
*Global Yield Fund			3.1
Government Income Securities			12.9
John Hancock Bond Trust	B	B	13.0
John Hancock Income Securities Trust	A+	D	12.5
John Hancock Investors Trust	C	B	12.0
John Hancock US Govt Securities	D	A+	11.6
Hatteras Income Securities	B	C	10.6
*IAI Bond Fund	D	C	15.9
IDS Bond Fund	B	B	10.7
IDS Extra Income Fund			–3.5
IDS Selective Fund	A	C	12.3
INA Investment Securities	B	D	11.5
Independence Square Income Secs	A	D	12.3
InterCapital Income Securities	A	D	7.9

*Fund has no load or shareholder-paid 12b-1 plan.

Taxable bond funds

Fund	Performance in UP —markets—	DOWN —markets—	12-month total return
Investment Portfolios-Govt Plus			11.5%
Investment Portfolios-High Yield			–3.5
Kemper High Yield Fund	B	A	–1.1
Kemper Income & Capital Preservation	C	B	8.5
Kemper US Government Securities	C	C	14.0
Keystone Custodian B-1	C	D	11.9
Keystone Custodian B-2	C	C	5.1
Keystone Custodian B-4	D	D	–5.1
*Lexington GNMA Income Fund	D	C	15.5
Lincoln National Income[1]	D	A+	17.2
Lord Abbett Bond-Debenture Fund	D	A	5.0
Lord Abbett US Government Securities	D	A	12.8
Lutheran Brotherhood Income Fund	A	B	12.5
MainStay-Government +[2]			13.0
Mass Financial Bond Fund	B	C	13.4
Mass Financial High Income-Series I	B	C	–1.9
MassMutual Corporate Investors	D	A	5.9
Merrill Lynch Corp-High Income-A	D	A	4.3
Merrill Lynch Corp-High Quality-A	B	B	13.6
Merrill Lynch Corp-Intermediate	C	B	12.3
Merrill Lynch Federal Securities			13.6
Merrill Lynch Retirement/Income Fund			13.0
MetLife-State Street Government Income			12.6
MFS Government Markets Income Trust			11.0
MFS Government Securities High Yield			13.2
MFS Intermediate Income			8.7
MFS Lifetime Government Income Plus			11.6
MFS Multimarket Income Trust			7.9
Midwest Income-Intermediate Govt	D	C	10.6
Montgomery Street Income Securities	B	D	9.1
*Mutual of Omaha America Fund	F	A+	14.2
Mutual of Omaha Interest Shares	A+	B	11.2
National Bond Fund	C	F	–11.9
National Federal Securities Trust			13.2
Nationwide Bond Fund	C	D	10.7
New England Bond Income Fund	D	B	11.4
*Nicholas Income Fund	C	C	3.9
*Northeast Investors Trust	A	D	0.0
Oppenheimer High Yield Fund	D	B	3.9
Pacific American Income Shares	B	C	11.2
PaineWebber Fixed Inc-GNMA			12.6
PaineWebber Master Global Income			5.4
Phoenix High Yield Fund	C	C	–0.9
Pilgrim High Yield Trust	C	B	1.9

Fund	Performance in UP —markets—	DOWN —markets—	12-month total return
Pioneer Bond Fund	D	B	11.6%
*T Rowe Price High Yield Fund			–1.6
*T Rowe Price New Income Fund	F	A	12.3
Prudential Strategic Income			4.3
Pru-Bache Government Plus			10.4
Pru-Bache High Yield Fund	C	C	–1.3
Putnam GNMA Plus Trust			14.2
Putnam High Income Govt Trust			13.9
Putnam High Yield Trust	B	C	–3.1
Putnam Income Fund	B	B	12.1
Putnam Intermediate Govt Income			10.4
Putnam Master Income Trust			5.7
Putnam Premier Income Trust			8.1
Putnam US Govt Guaranteed Secs			12.7
Revere Fund	F	F	–14.3
*Scudder Income Fund	C	C	12.7
Security Income-Corporate Bond	D	A	9.9
Sentinel Bond Fund	D	A	12.5
Sigma Income Shares	A	D	10.6
SLH High Yield Fund	A	D	–4.7
SLH Income-High Income			–4.6
SLH Income-Mortgage Securities			10.8
SLH Investment-Government Secs			15.1
SLH Managed Governments			10.1
State Mutual Securities Trust	D	B	10.8
*SteinRoe Managed Bonds	C	C	12.6
Templeton Global Income Fund			5.1
Thomson McKinnon-Income			5.5
Thomson McKinnon-US Govt			12.2
Transamerica Govt Securities Trust			11.3
Transamerica Income Shares	A+	B	14.1
Transamerica Invest Quality-Bond	A	D	11.5
United Bond Fund	A	C	10.6
United High Income Fund	B	D	–8.0
USLife Income Fund	A	D	5.5
*Value Line US Government Securities	B	C	11.9
Van Kampen Merritt US Government			13.3
*Vanguard Fixed Income-GNMA	B	A	14.8
*Vanguard Fixed Income-High Yield	C	B	1.9
*Vanguard Fixed Income-Invest Grade	C	A	15.2
*Vanguard Fixed Income-Short-Term			11.5
*Vanguard Preferred Stock Fund	A	C	18.7
Venture Income (+) Plus	C	C	–5.0
Vestaur Securities	A	C	14.7

*Fund has no load or shareholder-paid 12b-1 plan. [1]Formerly Lincoln National Direct Placement. [2]Formerly Mackay Shields Mainstay-Government +.

Municipal bond funds

Funds rated here have at least $100 million in assets and five years of results. Each month since Dec. 31, 1984 is treated as a bull or bear month, depending on the Shearson Lehman municipal bond index. New York and California funds are rated more leniently to compensate for their yield disadvantage in buying only local bonds.

Fund	Performance in UP —markets—	DOWN	12-month total return
*AARP Insured T-F Inc-General Bond	D	D	10.8%
American Capital Muni Bond Fund	B	D	10.4
*Benham Calif Tax-Free-Intermediate	D	A	7.9
*Benham Calif Tax-Free-Long-Term	C	D	9.6
California Tax-Exempt Bonds	C	B	9.9
Calvert Tax-Free Reserves-Limited	F	A+	7.1
Cigna Municipal Bond Fund	A+	D	9.7
Colonial Tax-Exempt-High Yield Fund	D	A	8.1
*Columbia Municipal Bond Fund	C	C	8.6
Composite Tax-Exempt Bond Fund	D	B	7.5
Dean Witter Calif Tax-Free Income	A	D	9.6
Dean Witter Tax-Exempt Secs	B	C	10.6
Delaware Group Tax-Free Fund-USA	C	A	10.5
DMC Tax-Free Income Trust-PA	C	B	9.8
Double Exempt Flex Fund	D	A	9.1
*Dreyfus California Tax-Exempt Bond	D	B	8.6
*Dreyfus Intermediate Tax-Exempt Bond	D	A	8.8
*Dreyfus NY Tax-Exempt Bond Fund	C	C	9.0
*Dreyfus Tax-Exempt Bond Fund	C	C	9.4
Federated Tax-Free Income Fund	B	C	14.0
*Fidelity Calif Tax-Free-High Yield	C	C	9.7
*Fidelity Mass Tax-Free-High Yield	C	C	9.2
*Fidelity NY Tax-Free-High Yield	C	C	9.3
*Fidelity Tax-Free-High Yield	B	C	11.4
*Fidelity Tax-Free-Limited Term Munis	D	B	7.8
*Fidelity Tax-Free-Municipal Bond	B	C	9.5
*Financial Tax-Free Income Shares	A+	F	11.7
First Investors New York Tax-Free	D	B	9.0
First Investors Tax-Exempt Fund	D	A	8.7
Franklin Calif Tax-Free Income	D	A	8.6
Franklin Federal Tax-Free Income	C	C	9.0
Franklin New York Tax-Free Income	C	B	9.6
John Hancock Tax-Exempt Income	A	C	9.0
IDS High Yield Tax-Exempt Fund	B	B	11.4
IDS Tax-Exempt Bond Fund	A	D	11.8
Kemper California Tax-Free Income	B	B	11.4
Kemper Municipal Bond Fund	B	B	11.3
Keystone Tax-Free Fund	C	C	9.1
Limited Term Municipal-National	D	A+	7.9
Lord Abbett Tax-Free-National	B	C	9.5
Lord Abbett Tax-Free-New York	B	B	9.3
Lutheran Brotherhood Muni Bond	B	C	9.9
Merrill Lynch Muni-High Yield-A	C	B	9.1
Merrill Lynch Muni-Insured-A	C	C	9.5%
Merrill Lynch Muni-Ltd Maturity-A	F	A+	6.9
MFS Managed High Yield Muni Bond	D	A	10.6
MFS Managed Muni Bond Trust	B	C	9.7
MFS Managed M-S Tax-Exempt-NC	C	B	9.1
MFS Managed M-S Tax-Exempt-Virginia	D	B	9.3
Mutual of Omaha Tax-Free Income	A	D	10.1
New England Tax-Exempt Income	A	D	9.2
Nuveen Municipal Bond Fund	B	B	10.9
Oppenheimer New York Tax-Exempt	C	B	8.1
Oppenheimer Tax-Free Bond Fund	C	C	9.5
PaineWebber Tax-Exempt Income	C	C	9.2
*T Rowe Price Tax-Free Income Fund	D	D	9.3
*T Rowe Price T-F Short Intermediate	D	A	6.9
Pru-Bache National Municipals	C	D	7.4
Putnam California Tax-Exempt Income	B	B	11.1
Putnam N.Y. Tax-Exempt Income Fund	B	B	10.7
Putnam Tax-Exempt Income Fund	A	C	12.7
*Safeco Municipal Bond Fund	A	C	10.0
*Scudder California Tax Free Fund	B	D	10.4
*Scudder Managed Municipal Bonds	A	D	11.2
*Scudder NY Tax Free Fund	C	C	10.0
Seligman Tax-Exempt-Massachusetts	B	D	8.7
Seligman Tax-Exempt-Michigan	A	D	10.7
Seligman Tax-Exempt-Minnesota	B	D	9.9
Seligman Tax-Exempt-National	A	C	9.8
Seligman Tax-Exempt-Ohio	B	D	9.9
SLH California Municipals Fund	C	C	9.5
SLH Managed Municipals Fund	C	B	10.2
SLH New York Municipals Fund	C	B	9.1
*SteinRoe High-Yield Municipals	C	A	11.4
*SteinRoe Managed Municipals	A+	F	10.6
Tax-Exempt Bond Fund of America	B	D	9.5
United Municipal Bond Fund	A+	D	11.1
*USAA Tax-Exempt Fund-High Yield	B	D	10.6
*USAA Tax-Exempt Fund-Intermediate	D	A	9.2
*USAA Tax-Exempt Fund-Short-Term	F	A	7.4
*Value Line Tax-Exempt-High Yield	D	B	8.3
*Vanguard Muni Bond-High Yield	A	D	11.1
*Vanguard Muni Bond-Insured L-T	A	D	10.6
*Vanguard Muni Bond-Intermediate	D	B	10.0
*Vanguard Muni Bond-Long-Term	A	D	11.6
*Vanguard Muni Bond-Short-Term	F	A+	7.0

*Fund has no load or shareholder-paid 12b-1 plan